

Credit Union Central Annual Report

ALBERTA CREDIT UNIONS



1988

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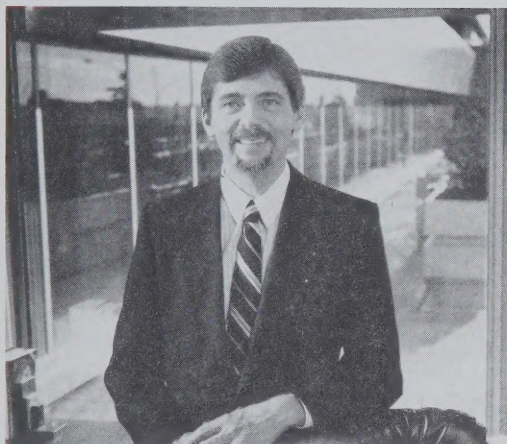


SERVICE

our

Central Focus

Message from the President



Larry Hendricks, President

On behalf of the Board of Directors I am pleased to report the activities of the Board during the past year.

1988 has been a year of rebuilding for the Alberta Credit Union System. The goal was to move out of the crisis management of the past few years and into a phase which sees the rebuilding of a solid system structured for long term strength. To begin this process, your Board engaged a new Chief Executive Officer, Jim Scopick. Jim brings a strong planning and financial background to the system and his experience along with his team oriented leadership style will play a key role in the ongoing revitalization of the system.

A second and continuing issue within the system is one of balance. We must balance cooperative principles with fair and equitable treatment of all credit unions regardless of size and at the same time recognize that the relative size of the very small and the very large credit unions cannot be ignored. The Board is addressing this concern by developing a strong working relationship among credit unions and between credit unions and Central. The basis for this working relationship has been the development of an extensive two-way communication process with heavy emphasis on system input into comprehensive short and long term plans. Important changes in Central operations have resulted from these frank discussions of major issues facing our system.

In working to develop this relationship the Board has emphasized listening to system needs and desires and working in an open and responsive way.

To be more specific, the 1988 planning and budgeting process resulted in Central taking several major initiatives.

These included:

- purchasing the banking software from the CUDATA joint venture owners to ensure longer term stability
- undertaking an extensive review of options for enhancing our banking system and selecting the front end hardware
- implementing the first year of a three year plan to phase in fee for service pricing for Central services
- modifying deposit rates to enhance the return on and stability of our statutory liquidity program

As well, the Board continues to work with the Canadian Cooperative Association in developing the Director Achievement Program. The courses in this program are an important way of helping those of us who are volunteers to make informed decisions around our respective boardroom tables.

Finally, we cannot reflect on 1988 without mentioning the Credit Union Act. Although the system was disappointed that the Act was not passed last summer, the delay provided an opportunity for further input. As well, the Board has obtained an important commitment from the Government for more involvement by the system in developing Regulations which will accompany the Act and which will have a major effect on on-going credit union operations.

Overall, the Credit Union System has taken major strides in the rebuilding process and I believe the future of the system looks bright as we build on this solid foundation. I would also like to acknowledge the hard work of the Staff and Management of Central during the past year. Through their efforts a higher level of service has been achieved.

A special thank you to the Board of Directors for their diligent work and dedication as well as for the opportunity to serve them during the past year.

Message from the Chief Executive Officer



James R. Scopick, Chief Executive Officer

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1988 has been a year of significant accomplishment for the credit union system in Alberta. The system returned to profitability on a consolidated basis from both regional and overall standpoints. A high level of optimism prevails among the management and boards of credit unions throughout the province as good gains in deposits, assets and equity reported for the year ended October 31, 1988 have continued into 1989. The hard work and dedication of the system's staff and volunteers has placed the system on a strong foundation from which to grow and to continue the innovative development and expansion of products and services to our members. We are now in a position to reassert the leadership role credit unions have played in the financial industry in Alberta in the past.

1988 has been a year of achievement for Central as well. A good bottom line and improvement in our reserves was realized notwithstanding the introduction of new products and services and the enhancement of rates paid to credit unions on liquidity and other deposits. Costs are significantly lower than previous years and the differential between operating expense and income has been reduced to its lowest level in the 1980's. Central staff have done their jobs with pride and professionalism and are committed to providing credit unions the highest standards of service.

Central's new service motto—"Service—Our Central Focus"—was originated by our staff to exemplify our commitment to service excellence. This motto will be featured on all Central communications and will be accompanied by a new program to recognize exceptional performance by individual employees. We have one key objective in this area: to be the best.

The report on operations which follows highlights the major activities undertaken by Central's divisions and departments in 1988. In singling out certain achievements, one would not want to understate the importance or impact of all of the activities carried on by our staff. However, two items stand out as best exemplifying the strong spirit of co-operation and goodwill that exists between the credit unions and Central.

First, the voluntary commitment by credit unions to mandatory liquidity pooling has placed Central and the system in an extremely sound liquidity position. The current liquidity program, together with the inter-provincial liquidity support arrangements now in place assure credit unions and their members the liquidity base necessary to deal with the cycles common in the financial industry.

The second major achievement was the agreement by credit unions and Central to commit to a five year plan for working together to up-grade our banking system and to develop and implement a branch automation system. We are confident that these developments will put us in the forefront of the financial industry and enable the efficient delivery of an expanded range of products and services at the credit union level.

Our Board of Directors has clearly demonstrated their strong commitment to excellence and system participation. Their contribution together with the hard work and dedication of Central's Management and Staff show very clearly in our financial performance and in the levels of satisfaction reported by credit unions in our annual Satisfaction Survey. We can all be proud of these accomplishments.

Review of Operations

The 50th anniversary of credit unions in Alberta in 1988 offered credit unions across the province the opportunity to sponsor local celebrations in recognition of this landmark event. Central joined the celebration by providing special recognition to twenty-six credit union members who were active in pioneering Alberta credit unions in 1938. The expansion of credit unions in Alberta over the past 50 years is based upon the ties of credit unions to their local communities and a strong commitment to member service. Credit union members have demonstrated a high level of support for their credit unions allowing the system to report a significant turnaround in operations in 1988 with a consolidated net profit of \$7 million and positive growth in member deposits and loans.

The 50th anniversary celebration has clearly set the priorities for the future of credit unions before us. In the rapidly changing financial services marketplace we must continue to innovate and grow by providing the personal focus in service that has proven so successful during our first 50 years.

Central activities are directly tied to the business needs of the Alberta credit unions. Central has embarked on aggressive strategies to reduce costs to credit unions for service delivery. New service development has been directed towards generating efficiency and improved selection and quality of service to members.

Central is dedicated to further strengthening the benefits of Central services through the co-ordination of credit union and Central business strategic plans. To this end, in 1988 Central consulted extensively with the credit union system on key long term business strategies. The result of this consultation will see the implementation of a number of new programs designed to support credit union business growth and member service in future years. Priority areas for new development include director

and staff training, loan pooling and syndication, and data processing system enhancements.

Central plays a vital role at the national level in the financial co-operative sector. Our national involvement has permitted our system to participate in new products and initiatives on a cost effective basis. There is growing recognition within credit union systems across Canada of the benefits available through sharing in service programs as we see continued opportunities to expand our involvement in transaction processing services, insurance, trust products, and other new service areas.

Important groundwork for involvement of Alberta credit unions in the emerging financial marketplace will be laid by a new provincial Credit Union Act. Central has been extensively involved in discussions with the province over the past two years to ensure that our system has every opportunity to participate effectively in the marketplace.

Presented to the Legislature in June, 1988 the Credit Union Act was delayed in passage until 1989, providing further opportunity for credit union comment. With passage of the new Act and Regulations in 1989, Central's efforts will be directed towards assisting credit unions through the implementation process and assessing the impacts of legislative provisions on the operating environment for credit unions.

Central's three divisions, financial services, information services and credit union support services had very active and successful operations in 1988. Although an aggressive schedule of new projects was undertaken, overall costs of operation were reduced and service pricing to credit unions remained constant for the third consecutive year. At Central we have placed a very high emphasis on quality service and responsiveness to credit union requirements. Highlights of the activities of Central's operating divisions for 1988 are provided in the following reports.

Financial Services Division

Although built upon local community operations in Alberta, credit unions are



fully integrated into the financial services industry. The financial services division provides credit unions with many essential facilities including direct access to the Canadian Payments Association for clearing and settlements, financial courier services, provincial and national liquidity pooling, operating credit facilities, investment vehicles, banking and cash services, and credit card operations. Credit unions are able to provide a complete range of financial services on a cost competitive basis by participating in these nationally integrated services.

One of the primary functions of the division is the operation of the credit union liquidity pool. Consisting of \$200 million in liquid investments on deposit at Central, the liquidity program ensures that credit unions are readily able to meet member transaction requirements. In 1988 Central implemented a major revision to the returns paid to credit unions on liquidity deposits, increasing net projected interest payments to credit

unions in fiscal 1989 by \$1 million. This was made possible by the agreement of Alberta credit unions to mandatory participation in the pooling program.

This provincial liquidity pool is integrated at the national level through the Canadian Co-Operative Credit Society, thereby providing a further level of protection to ensure that credit unions are always able to meet local member transaction needs.

As the credit union system's liquidity agent, Central's financial management objectives are to maintain a very high quality, matched and liquid investment portfolio. Stringent attention to matching of investment terms has ensured that Central is relatively free of interest risk during periods of fluctuating interest rates. Central also maintains a very conservative leverage position of less than 5:1 ensuring maximum access to borrowing sources should the need arise.

Central closed the year with a very strong financial performance allowing a



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\$1.3 million allocation to reserves after payment of a \$5.2 million dividend to credit unions (8.75%). This favourable bottom line was assisted by further progress in the reduction of operating costs. Total operating costs were \$14.2 million in 1988 compared with \$14.9 million in 1987.

At the close of 1988 the negotiations between the Canadian Co-Operative Credit Society and the National Contingency Fund of the Investment Dealers Association were successfully concluded with the payment of \$10 million to CCCS in compensation for losses incurred as a result of the failure of Osler Inc. This positive resolution will result in future improvements in CCCS operations which will contribute to the recovery of losses recognized by Central in CCCS in 1987 and 1988.

Information Services Division

The Information Services Division provides the computer processing support for 50 credit unions at 150

branch locations across Alberta. This includes the development and maintenance of the banking software which constitutes the core financial services delivered by credit unions to their membership. The division supports the transaction processing requirements for cheque clearing and ATM networks, and provides the internal data processing required by Credit Union Central corporate operations.

Commencing in 1987 the division undertook the development of a long term plan for data processing system enhancements. The credit union owners of the banking system software were extensively involved in this planning process. The objective of the data processing plan is to ensure the combination of software and computer technology necessary to provide future flexibility in product development. By mid-year the credit union data processing system users had committed their support to this development plan by concluding a five year agreement for the use and

enhancement of Central computer services.

A major feature of the long term development plan is the completion of a series of enhancements to the banking system software. Components of the software which were upgraded or added during 1988 include an RRSP system, expanded chequing package options and a credit card system. These improvements will permit credit unions to deliver an expanded array of services and account features designed to enhance the competitive advantages of credit unions in the marketplace.

The second major component in the long term data processing plan is the replacement of branch terminals with a new generation of member service hardware. The new age of banking hardware will place a much higher level of information processing capacity at the branch level. Benefits to the members include greater access to product information (rates, service charges, loan amortization schedules) and faster handling of routine teller transactions as well as more complex "side counter" functions, such as loan and RRSP processing. For credit unions these new systems will enhance management reporting, further assisting credit unions in designing new product features to meet member demands.

The implementation of the long range data processing plan is an important proactive move by credit unions to remain at the leading edge of service and product development.

In 1988 Central concluded it's planning for further enhancements to the credit union ATM service by committing to participation in the INTERAC ATM sharing network. Alberta credit unions are currently members in the CIRCUIT CIRRUS network providing 24 hour ATM access throughout North America. This INTERAC connection will be completed during the summer of 1989.

A number of new development projects were also undertaken in Central corporate systems during the year. These activities were directed at automating functions in order to generate efficiency and cost savings to credit unions, and included the automation of US money order and drafts services, and supplies

inventories. Central installed an electronic office mail system which now handles all routine internal correspondence. This system has future potential for streamlining communications between Central and the widely distributed network of credit unions across Alberta.

Central's data processing service provides a high level of reliability and security to credit union users. In order to ensure full system reliability Central has contracted for a disaster backup and recovery facility for its banking network. This facility was successfully tested during 1988. In addition, a special data processing audit by Central's external auditors confirmed that Central is offering secure and well managed data processing services.

Our strategy for new development will result in clear benefits to credit union members through increased efficiency of service delivery and a wider range of product options, enabling credit unions to complete effectively in the rapidly changing financial services marketplace.

Credit Union Support Division

The Credit Union Support Division provides marketing, communications, human resources, purchasing and supplies services to Alberta credit unions. The division's goal is to offer a pool of professional resources to credit unions, which through the various consulting services and products offered, can contribute to the effectiveness of credit unions. The division's services are available to all credit unions, and are tailored to meet the needs of credit unions with very diverse operations.

The Marketing department's role is to assist in the development of credit union image and market share through effective use of marketing strategies. The department offers a comprehensive program for local marketing strategy development which includes point of sale, direct mail and media support materials. In addition, this marketing planning and implementation package is supplemented by the department's consulting services, which may be used by credit unions to assist at any phase of a marketing program.

A province wide image promotion campaign is co-ordinated through the marketing department on behalf of Alberta credit unions. Based upon a new series of consumer research conducted in 1988 on the attitudes and financial institution usage patterns of Albertans, the department launched a revamped image program emphasizing the unique personal oriented service provided by credit unions under the theme "People Before Profits".

The Member Communications department is responsible for the general corporate communications programs of Central, together with co-ordination of activities with Central's chapter-delegate system. As a credit union-owned service organization, Central is controlled through a democratic regional chapter structure with shareholder credit unions appointing delegate representatives. Over 300 delegates meet regularly throughout the year to discuss issues of importance to the credit union system, and provide input to Central's operating plans.

A major priority of the Human Resources department during 1988 was related to credit union staff and director training programs. An important initiative in director training was commenced in

1988 with the launch of a nine module director education program. The modules focus on specialized areas of director skills—legislation, legal responsibility, planning and objective setting, performance appraisal, co-operative principles—and has been very well received by participants.

Credit union training efforts have been focused on specific job skills, and selling techniques. Particular effort has been made to increase credit union access to training facilities through regional instruction and use of audio visual training approaches.

In 1988 the department assisted in the formation of a new regional credit union managers association intended to foster professional development, information exchange and operational input to Central.

The Purchasing and Supplies department recorded very positive credit union sales in 1988. The department aims to create volume purchasing advantages for credit unions in specialized forms, documents, equipment and speciality promotion items. In 1988 the department installed a new inventory management system to offer credit unions improved control over supplies purchased.

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Auditors' Report

To The Members
Credit Union Federation of
Alberta Limited

We have examined the consolidated balance sheet of the Credit Union Federation of Alberta Limited as at December 31, 1988 and the consolidated statements of earnings and general reserve for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial

position of the Credit Union Federation of Alberta Limited as at December 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse.

Chartered Accountants
Calgary, Alberta
February 3, 1989

Consolidated Balance Sheet

As At December 31, 1988

ASSETS

	1988	1987
	(Thousands of Dollars)	
Cash on hand and in bank	\$ 8,217	\$ 10,721
Items in transit	1,458	1,143
Accounts receivable	467	942
Accrued interest receivable	3,720	2,209
Investment in securities (Note 2)	309,980	229,955
Loans to members (Note 3)	82,048	132,327
Other assets	520	502
Investment in joint ventures (Note 4)	5,724	5,829
Fixed assets (Note 5)	3,193	3,385
Deferred income taxes	371	160
	<u>\$415,698</u>	<u>\$387,173</u>

LIABILITIES

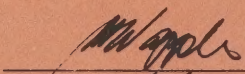
Accounts payable	\$ 2,083	\$ 2,486
Accrued interest payable	7,446	5,756
Income taxes payable	151	505
Members' deposits	333,754	309,837
Loan payable (Note 6)	—	600
Debenture payable	1,000	1,083
	<u>344,434</u>	<u>320,267</u>

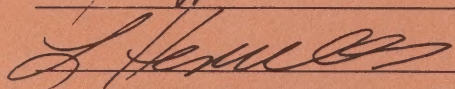
Commitments (Note 10)

MEMBERS' EQUITY

Share capital		
Authorized		
Unlimited at \$5		
Allotted (Note 7)	61,152	58,103
General reserve	10,112	8,803
	<u>71,264</u>	<u>66,906</u>
	<u>\$415,698</u>	<u>\$387,173</u>

Signed on behalf of the Board

 Director

 Director

Consolidated Statement of Earnings

For The Year Ended December 31, 1988

	1988	1987
	(Thousands of Dollars)	
Financial income		
Interest on member loans	\$ 12,064	\$ 11,476
Interest on investments	20,956	17,344
	<u>33,020</u>	<u>28,820</u>
Financial expenses		
Interest on member deposits	25,052	21,563
Interest on borrowed funds	245	348
	<u>25,297</u>	<u>21,911</u>
Financial margin	7,723	6,909
Operating income (per schedule)	13,990	13,792
	<u>21,713</u>	<u>20,701</u>
Operating expenses (per schedule)	14,158	14,894
Investment loss provision (Note 2)	592	1,250
Earnings before income taxes	<u>6,963</u>	<u>4,557</u>
Provision for (recovery of) income		
taxes (Note 8)—current	633	634
—deferred	(211)	(653)
	<u>422</u>	<u>(19)</u>
Earnings for the year	<u>\$ 6,541</u>	<u>\$ 4,576</u>

Consolidated Statement of General Reserve

For The Year Ended December 31, 1988

	1988 (Thousands of Dollars)	1987
General reserve at beginning of year	\$ 8,803	\$ 8,840
Earnings for the year	<u>6,541</u>	<u>4,576</u>
	15,344	13,416
Less: Dividends (Note 9)		
—paid in cash	4,793	—
—paid in shares	<u>439</u>	<u>4,613</u>
General reserve at end of year	<u>\$ 10,112</u>	<u>\$ 8,803</u>

Consolidated Schedule of Operating Income and Operating Expenses

For The Year Ended December 31, 1988

	1988 (Thousands of Dollars)	1987
Operating Income		
Data processing	\$ 7,558	\$ 7,145
Clearing fees and service charges	4,613	4,578
Member dues	902	775
Other	588	965
Supplies sales margin	<u>329</u>	<u>329</u>
	<u>\$ 13,990</u>	<u>\$ 13,792</u>

Operating Expenses

Salaries and employee benefits	\$ 5,351	\$ 5,084
Data processing	2,989	2,733
Depreciation and amortization	1,566	2,466
Property	956	978
Marketing and communications	756	898
Democracy	508	702
Equipment leases, rentals and maintenance	463	330
Clearing and banking	363	388
Other	352	363
Travel	285	280
Professional resources	279	279
Telephone	166	248
Stationery and supplies	<u>124</u>	<u>145</u>
	<u>\$ 14,158</u>	<u>\$ 14,894</u>

Notes To The Consolidated Financial Statements

December 31, 1988

1. Summary of Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union Federation of Alberta Limited (the Federation) and its wholly owned subsidiary, CUCORP Financial Services Ltd.

b) Investments

Investments in securities are stated at cost, less write-downs for any declines in value which are considered to be permanent. Discounts or premiums on purchase of bonds are amortized over the remaining term of the bonds.

The investment in Canadian Co-operative Credit Society (C.C.C.S.)

is recorded at cost, adjusted annually for the Federation's share of earnings and losses. However, because the investment cannot be redeemed in excess of cost, earnings are not accrued so as to increase the carrying value of the investment above its cost.

Investments in joint ventures are accounted for using the equity method.

c) Depreciation and Amortization

Fixed assets are depreciated at rates varying from 10% to 33.3% on a straight line basis.

d) Changes in Statement Presentation

Certain of the 1987 balances have been restated for purposes of comparison.

2. Investment in Securites

	1988 (Thousands of Dollars)	1987
Short term notes and bonds	\$258,853	\$178,235
Co-operative debentures and deposits		
C.C.C.S.	38,100	38,100
Other	1,800	1,800
Co-operative shares		
C.C.C.S.	12,021	12,021
Other	1,798	1,799
	312,572	231,955
Share of C.C.C.S. deficit	(2,592)	(2,000)
	<u>\$309,980</u>	<u>\$229,955</u>

In 1987 C.C.C.S. incurred a significant loss which reduced the underlying book value of the Federation's 10.4% equity interest in C.C.C.S. to less than cost. In accordance with the Federation's accounting policy (Note 1b), the Federation's 10.4% share (\$2 million) of the C.C.C.S. deficiency was charged to

1987 earnings. The charge was recorded net of a \$750,000 recovery from another investment realized in the year.

In 1988 the Federation provided an additional \$592,000 representing its share of a further decline in C.C.C.S.'s underlying book value.

3. Loans to Members

	1988 (Thousands of Dollars)	1987
Credit Unions	\$ 53,963	\$ 96,864
Credit Union Stabilization Corporation	21,800	28,400
Co-operatives	6,285	7,063
	<u>\$ 82,048</u>	<u>\$132,327</u>

At December 31, 1988, loans to members include \$50.8 million (1987-\$76.8 million) to credit unions which are under supervision of the Credit Union Stabilization Corporation.

Loans to members are secured by general assignment of book debts and, in certain circumstances, fixed and floating charge debentures.

4. Investment in Joint Ventures

The Federation has a 1/5 interest in a joint venture which owns Heritage Square, the office building occupied by the Federation. During 1988, income of \$265,717 (1987-\$255,164) was recorded as investment income.

The Federation has a 1/2 interest in the Credit Union Electronic Transaction Services joint venture (C.U.E.T.S.). The

Federation's share of initial development costs has been fully amortized to income. During 1988, income of \$116,249 (1987-\$102,497) was recorded as other income.

In January 1989, the Federation sold 30% of its interest in C.U.E.T.S. to Credit Union Central of Ontario for \$900,000.

5. Fixed Assets

	1988		1987	
	Cost	Accum. Deprec.	Net Book Value	Net Book Value
	(Thousands of Dollars)			
Data Processing equipment	\$ 3,183	\$ 2,021	\$ 1,162	\$ 1,541
Office equipment	2,552	2,094	458	394
Operating software and development costs	1,494	753	741	459
Leasehold improvements	1,783	1,106	677	766
Furniture and fixtures	748	593	155	225
	<u>\$ 9,760</u>	<u>\$ 6,567</u>	<u>\$ 3,193</u>	<u>\$ 3,385</u>

During the year, the Federation purchased from credit unions, the software of the joint venture known as "Joint Venture Ownership of I.B.M. 3600 Banking System Computer Software and Development Investment - Alberta" for

\$2,169,558. The Federation also received proceeds of an equivalent amount on the sale of a software licensing agreement to former joint venturers.

6 Loans Payable

The Federation has entered into an agreement with C.C.C.S. for a line of credit to a maximum of \$100 million secured by a general assignment of loans receivable. At December 31, 1988 no loans were outstanding from C.C.C.S.

The Federation has credit arrangements with three other financial institutions totalling \$22 million. At December 31, 1988, no loans were outstanding with these institutions.

7. Share Capital

	1988		1987	
	Number	Value	Number	Value
Shares allotted at beginning of year	11,620,580	\$58,102,899	11,280,442	\$56,402,210
Share Allotments during the year, net of redemptions				
By dividend	87,889	439,447	922,683	4,613,416
By cash	521,912	2,609,561	(582,545)	(2,912,727)
Shares allotted at end of year	12,230,381	\$61,151,907	11,620,580	\$58,102,899

The Federation's bylaws require member credit unions to maintain share capital in the Federation equal to 2%, but not more than 3% of their assets as determined

from their most current audited financial statements. This requirement must be met by April 30th of each year.

8. Income Taxes

The combined federal and provincial statutory income tax rate applicable to the Federation is 28.4% for 1988 (1987-28.9%). Income taxes calculated

at the statutory rate differ from the provision (recovery) included in the statement of earnings for the following reasons:

	1988	1987
	(Thousands of Dollars)	
Income taxes at the statutory rate	\$ 1,977	\$ 1,317
Increase (decrease) in income taxes resulting from:		
Dividend payments to members	(1,486)	(1,333)
Other	(69)	(3)
Provision for (recovery of) income taxes	\$ 422	\$ (19)

The Federation has unrecorded deferred income taxes of \$925,000 arising prior to the adoption in 1980 of the

allocation basis of accounting for income taxes.

9. Dividends

During 1988, dividends were calculated using members' minimum monthly share capital account balances and the average monthly prime interest rate less 2%, which resulted in an average return of 8.75%.

During 1987, dividends were calculated using members' minimum monthly share capital account balances and 8%.

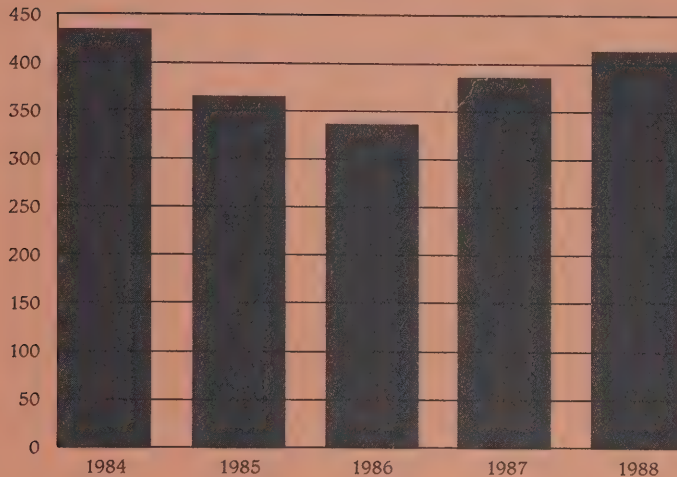
10. Lease Commitments

The Federation has the following lease commitments with respect to occupancy and computer equipment.

1989	\$1,578,909
1990	1,435,098
1991	462,140

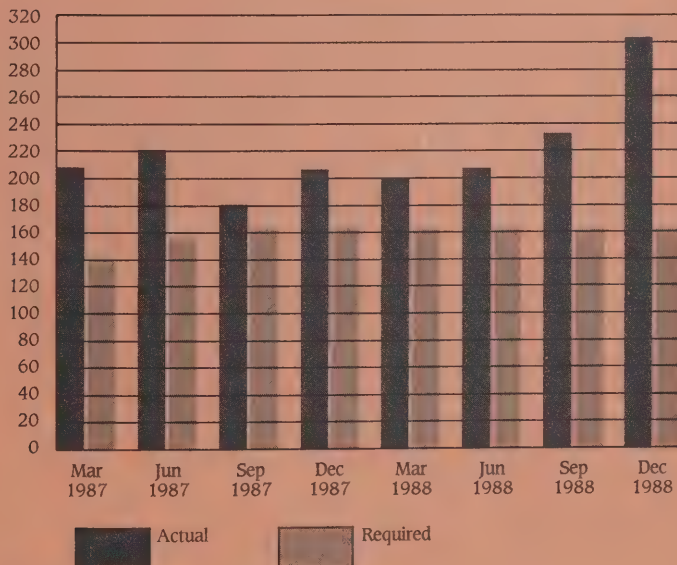


Total Assets (millions)



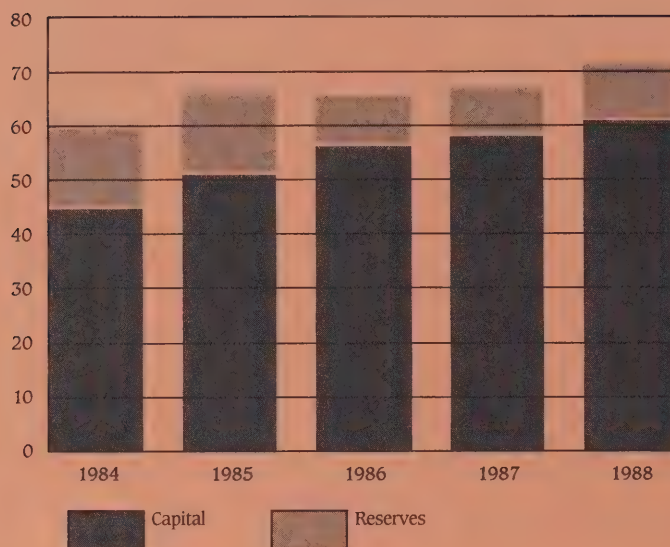
In 1988 the trend established in 1986 and 1987 towards increasing liquidity in the credit union system continued, and was reflected in an increase in Central's assets, primarily in cash and security investments, from \$387 million to \$416 million. Combined security investments and cash at Central rose \$77 million from \$241 million to \$318 million. Loans to credit unions, in light of the strong system liquidity, declined from \$132 million to \$82 million.

Operating Liquidity (millions)



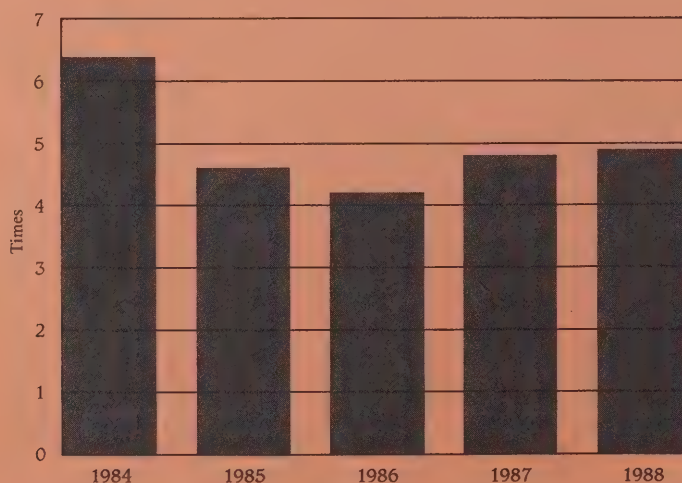
As part of a national liquidity program, Central targets to maintain operating liquidity of 6.0% of aggregate Alberta credit union system assets. The accompanying chart indicates that Central has met these targets ending the year with a liquidity surplus of \$143 million.

Capital and Reserves (millions)



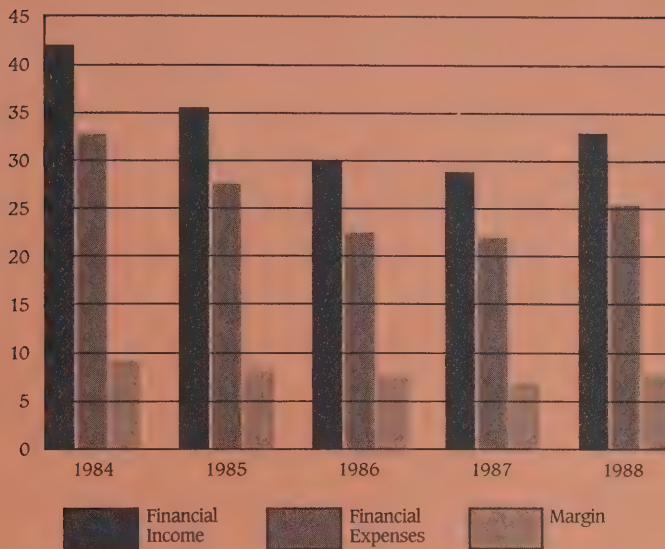
During 1988 Central continued its program of restructuring credit union share capital investments to the level of 2% of credit union assets. New purchases exceeded redemptions by \$3,049,000 resulting in a year end share capital balance of \$61,152,000. General reserves increased by \$1,309,000 after payment of dividends totalling \$5,232,000 or 8.75% average return on shares. Central's total equity increased 6.5% to \$71,264,000 at year end.

Debt Equity Ratio



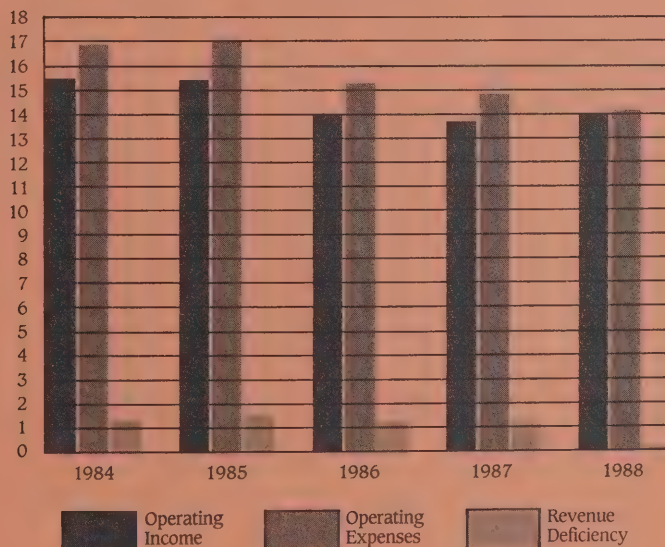
Central is permitted to operate with leverage of 15:1, however has adopted a very conservative equity leverage policy as befits a liquidity agent serving a market which has demonstrated some volatility in the past. At year end, Central's debt/equity ratio was 4.9:1; this may well be the strongest position for a comparable financial institution in Canada.

Financial Income and Expenses (millions)



Central's financial margin was \$7,723,000 in 1988 up from \$6,909,000 in the previous year. During the year Central's average asset mix continued to change, becoming more liquid. Average member loans decreased slightly by \$7.5 million in 1988. The average balance of investment securities increased from \$215.3 million in 1987 to \$230.2 million in 1988. Improved matching techniques together with these changes contributed to the increased margin.

Operating Income and Expenses (millions)



The 1988 operating year saw further progress in the reduction of Central operating costs by \$736 thousand to \$14.2 million. The portion of operating costs which remain unfunded by service fees was also further reduced by \$934 thousand for a net deficiency of \$168 thousand, representing the lowest level in 8 years. This reflects a continued emphasis on efficiency and cost control.

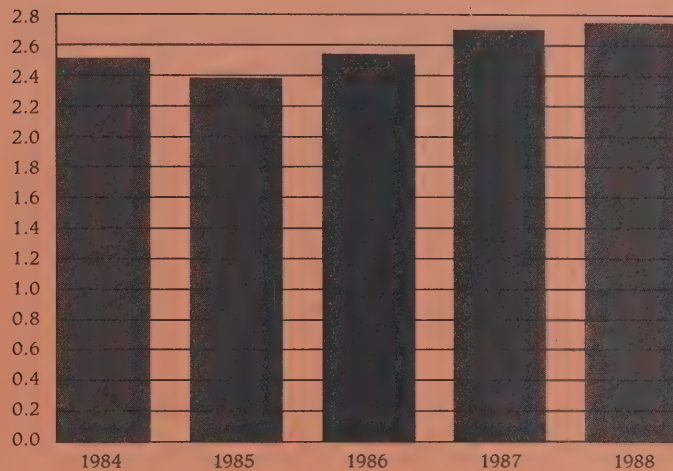
Five Year Operating Review

(thousands)

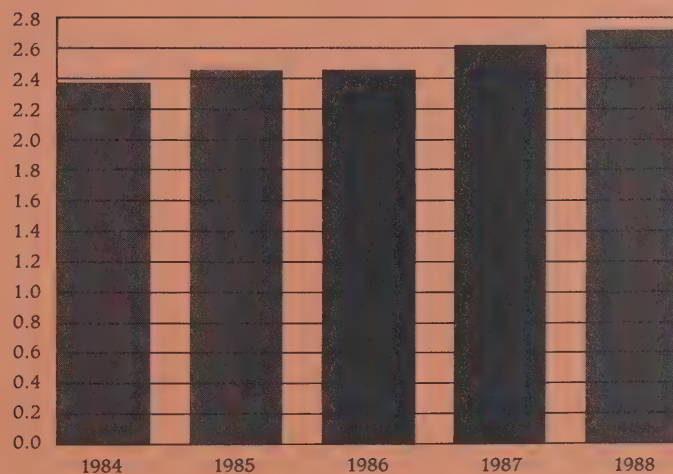
	1984	1985	1986	1987	1988
Financial Income	\$42,023	\$35,654	\$29,916	\$28,820	\$33,020
Financial Expenses	32,791	27,496	22,413	21,911	25,297
Margin	9,232	8,158	7,503	6,909	7,723
Operating Income	15,518	15,438	14,062	13,792	13,990
Operating Expenses	16,873	17,001	15,264	14,894	14,158
Operating Deficiency	(1,355)	(1,563)	(1,202)	(1,102)	(168)
Provision for Loss	—	1,002	—	1,250	592
Earnings Before Taxes	7,877	5,593	6,301	4,557	6,963
Taxes (Recovery)	1,283	129	(2,048)	(19)	422
Earnings After Taxes	\$ 6,594	\$ 5,464	\$ 8,349	\$ 4,576	\$ 6,541

System Results

Alberta Credit Unions
Consolidated Year End Assets
(billions)

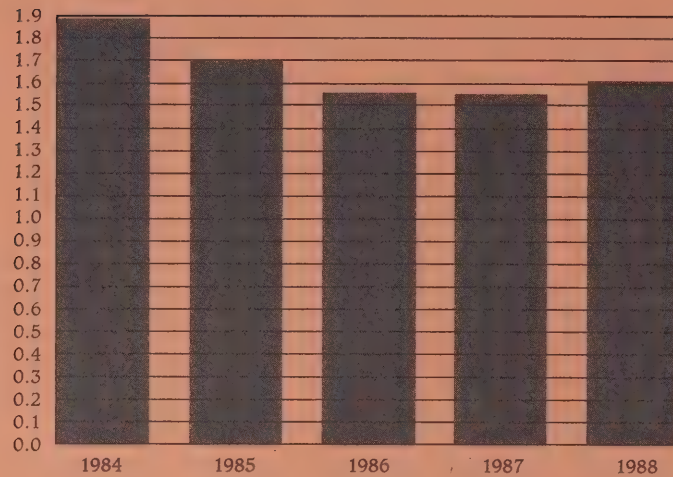


Alberta Credit Unions
Consolidated Average Assets
(billions)



System assets ended the year at \$2.75 billion. This represents a compounded growth rate of 3.5% since 1984 and 4.0% from the previous year in average assets outstanding.

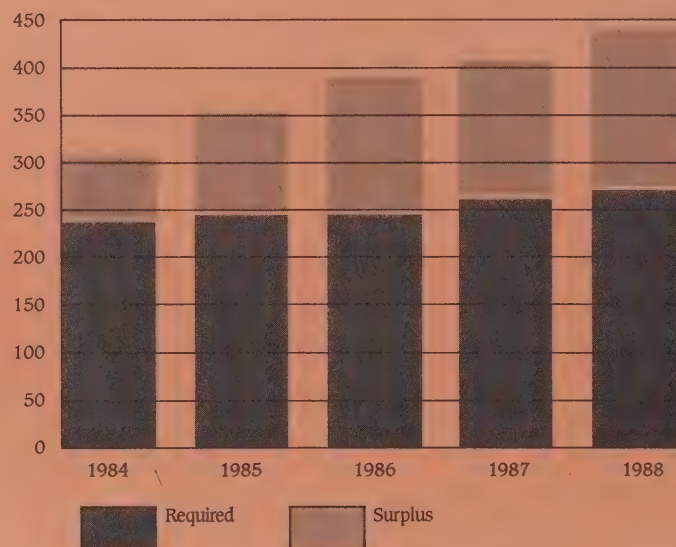
Alberta Credit Unions Consolidated Member Loans (billions)



Increases in member loans and reductions in loss provisions combined for a \$65 million increase in credit union loan portfolios. This resulted in a 4.2% increase over 1987 to end the year at \$1.62 billion. This indicates that efforts directed to quality growth are showing positive results.

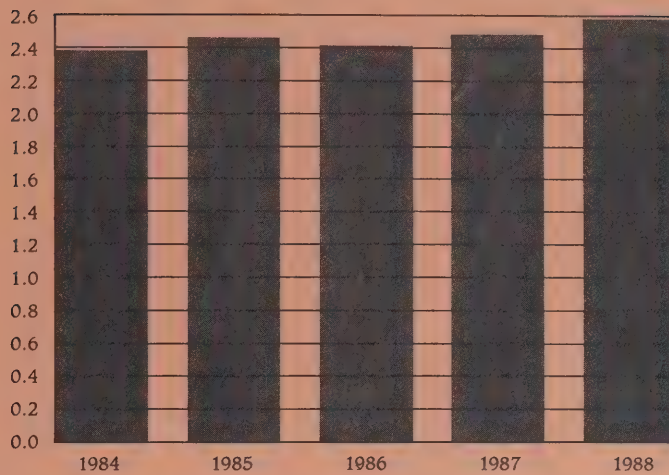
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Alberta Credit Unions Consolidated Liquidity (millions)

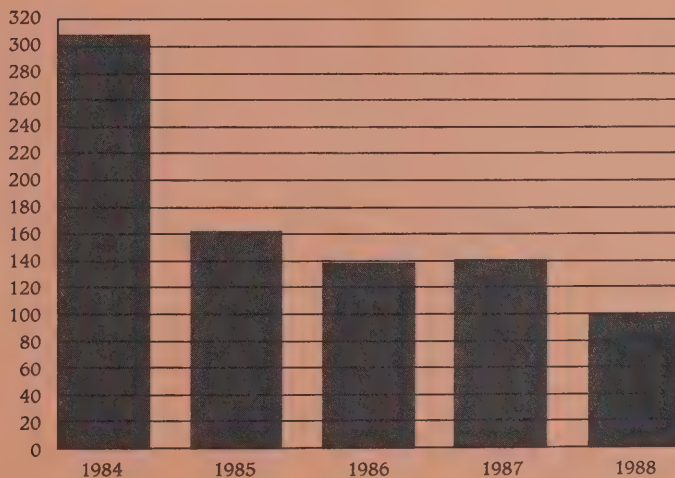


Liquidity levels have continued to increase. Credit unions are required to maintain 10% of their average monthly assets in liquidity investments. The chart reflects the required liquidity levels and surplus funds that are available to meet additional lending and other cash flow demands.

Alberta Credit Unions
Consolidated Member Deposits
(billions)

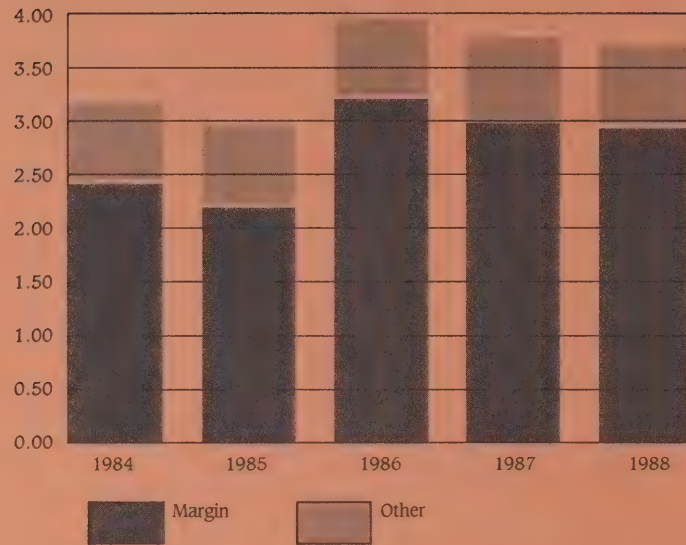


Alberta Credit Unions
Consolidated Borrowings
(millions)

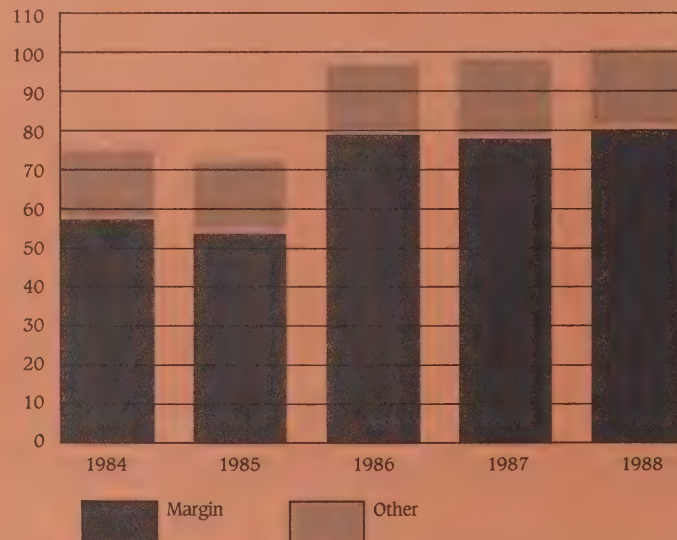


Member Deposits increased \$98 million or 3.9% during the year and stood at \$2.59 billion at year end. This increase in deposits allowed credit unions to fund additional loans and reduce their borrowings by \$40 million during the year.

Alberta Credit Unions
Consolidated Revenues
(% of assets)

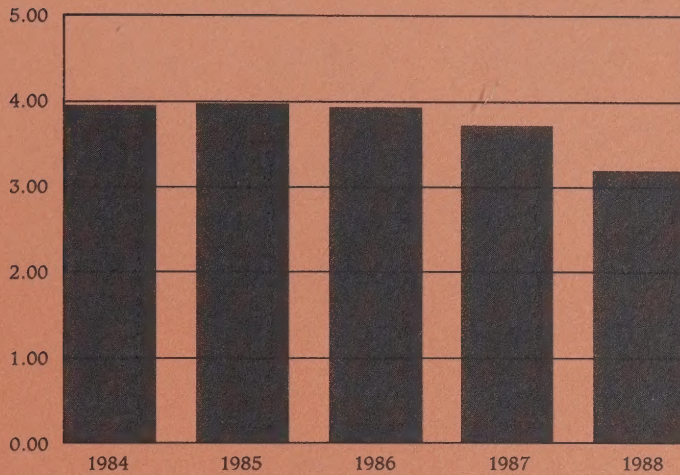


Alberta Credit Unions
Consolidated Revenues
(millions)



Financial margins have been maintained at levels around the 3.0% level of average assets for the past three years. This is a significant improvement from the 1985 level of 2.2%. When combined with other income these margins ended the year at \$101 million or 3.7% of average assets.

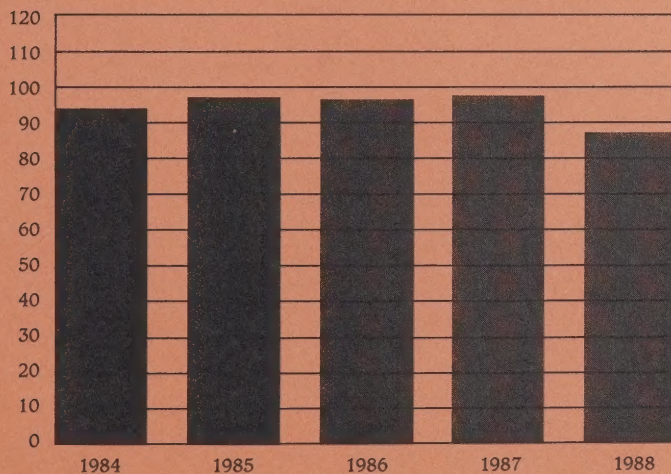
Alberta Credit Unions
Consolidated Expenses
(% of assets)



Credit unions have also emphasized the importance of reducing their operating costs and strive to achieve a level of 3.0% of assets. The charts show the positive results of these efforts. For the year ended October 31, 1988, the system achieved a level of 3.2% of assets.

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Alberta Credit Unions
Consolidated Operating Expenses
(millions)



In summary, 1988 was a very successful year for Alberta credit unions. Significant improvements in financial operations, resulted in combined net earnings of \$7 million.

The Board of Directors



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Standing (left to right)

Albert Goldade, Joe Eddleston, Ray Duchesneau, Len Ferguson, Tom Matkin, Dan Chalifoux

Seated (left to right)

Dave Munro, Art Nicholson, Stan Kuss

Mel Wapple, Barbara Cameron, Eric Knudsen

Front of table (left to right)

Walter Wakula, Larry Hendricks, Rene Dumas

